

Saskatchewan Transportation Company

Second Quarter Report 2006

2006 2nd Quarter Corporate Reporting

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Management Discussion and Analysis

In this MD&A, STC Management will discuss the results of its Second Quarter operations in 2006, in context of both the corresponding quarter in the previous year and, in general terms, in relation to the anticipated financial position of the company over the full year.

The MD&A will also review any emerging corporate issues which arose in the quarter and will have a significant impact on the corporation's fiscal position.

Passenger Service:

In the second quarter of 2006, STC coaches traveled 789,981 miles, serving 275 Saskatchewan communities.

Revenues for passenger operations in the quarter were \$1,748,000, up from the \$1,598,000 in revenues realized by the company in the second quarter of 2005. The revenues for the year to date were \$3,566,000, up from \$3,312,000 in the first six months of 2005.

Expenses associated with operating passenger services were \$2,149,000, up slightly from the 2005 figure of \$2,102,000. Year-to-date passenger operating expenses were \$4,430,000, compared to \$4,202,000 in the first six months of 2005.

Operating losses of passenger services in the quarter were \$401,000, a decrease from the \$504,000 in operating loss experienced by passenger services in the second quarter of 2005. The loss for the first six months of the year totals \$864,000, compared to \$890,000 for the same time period in 2005.

Actual revenues from passenger service are more than \$250,000 ahead of projected revenues for the first six months.

Express Service:

Through its network of 195 agents in the province and interconnecting arrangements with other carriers, STC hauls freight throughout the province and connects to destinations across North America.

In the second quarter of 2006, revenues from express operations were \$1,769,000, up slightly from the revenues of \$1,717,000 realized in the second quarter of 2005. Revenues for the first six months' express operations were \$3,111,000, up from the \$3,049,000 in revenues for the same period in the previous year.

Express operating expenses during the quarter amounted to \$1,040,000, up from the \$956,000 in expenses for the same period the previous year. Expenses for the first six months amounted to \$1,957,000, compared to \$1,873,000 in the first two quarters of 2005.

Overall, profits for freight operations in the second quarter amounted to \$729,000, compared to a profit of \$761,000 for the second quarter of 2005. Year-to-date profit is \$1,154,000, compared to \$1,176,000 for the first six months of 2005.

Revenues for freight operations are slightly below expectations for the quarter. The farming economy has a major impact on this aspect of STC's business, which is very heavily driven by the rural economy. Depending on agricultural conditions for the remainder of the year, express revenues are projected to be slightly above budget.

Maintenance Services:

STC operates a garage in Saskatoon for major bus servicing, and one in Regina for minor bus servicing. In addition, the company uses its facilities to do maintenance work for other bus companies, as well as to store vehicles for other companies.

The expenses for maintenance services in the second quarter of 2006 amounted to \$738,000, as compared to \$765,000 for the same three-month period in 2005. For the first two quarters, expenses amounted to \$1,498,000, compared to \$1,497,000 for the first half of 2005.

Financial Services:

Overall, STC's revenues for the second quarter of 2006 amounted to \$3,804,000, compared to \$3,439,000 for the second quarter of 2005. Cumulatively for the first two quarters, revenues amounted to \$7,257,000, compared to \$6,628,000 in 2005.

Expenses were \$5,077,000, compared to \$4,977,000 the previous year. Expenses for the first two quarters of 2006 totaled \$10,132,000, up from \$9,676,000 for the same period in 2005.

The company's loss, before grants, for the quarter was \$1,273,000, compared to \$1,538,000 for the second quarter of 2005. Losses in the first half amounted to \$2,875,000, compared to \$3,048,000 for the same period the previous year.

STC has been approved for an operating grant of \$5.0 million from its holding company, the Crown Investments Corporation of Saskatchewan. Current projections for the year, based on the second quarter, indicate that the company will not likely require the full amount of the grant funding this year. The projected operating loss for the year is approximately \$4.4 million, compared to \$4.0 million in 2005.

In the second quarter, STC drew down \$2.5 million of the grant funds available from CIC. STC had no outstanding loans or indebtedness in the quarter.

At the end of the quarter, the Government's equity in STC stood at \$10,098,000, compared to \$8,168,000 at the same time last year.

Other Issues:

STC continues to see growth in its passenger numbers. Although the number of passengers using the service in the second quarter of 2006 was down slightly from the first quarter, it was almost 4,000 above the same quarter for the previous year. The second quarter traditionally has fewer passengers than the first, mostly due to weather conditions.

Overall, for the first six months of 2006, the number of passengers on STC buses was up 6,353 over the same time period in 2005, an increase of just over five per cent.

If the current trends continue for the remainder of the year, led by the growing strength in passenger services, STC anticipates it will cut its loss for the year by more than \$600,000 from what was budgeted.

For the second year, STC introduced a youth summer excursion pass during the second quarter of 2006. The pass was introduced in 2005, and was wildly successful. It is anticipated that the pass, which cost a slight bit more in 2006, will be successful again this year, although not reaching the magnitude of 2005.

During the second quarter, STC management completed a full review of all its scheduled runs in the province, searching for improvements and economies.

Design work for the new Regina passenger and freight depot and head office was all but completed in the second quarter of 2006.

Saskatchewan Transportation Company**Statement of Financial Position**

(unaudited - thousands of dollars)

	As at June 30, 2006	As at December 31, 2005
Assets		
Current		
Cash	\$ 581	\$ 1,157
Accounts receivable	1,357	1,686
Inventories	378	353
Prepaid expenses	490	104
	2,806	3,300
Property, plant and equipment	17,992	17,888
	\$ 20,798	\$ 21,188

Liabilities and Province's Equity

Current		
Accounts payable and accrued liabilities	\$ 1,869	\$ 2,383
Deferred capital grant	8,831	8,993
Province of Saskatchewan's Equity		
Retained earnings	10,098	9,812
	\$ 20,798	\$ 21,188

Saskatchewan Transportation Company
Statement of Operations and Retained Earnings
(unaudited - thousands of dollars)

	Three months ended June 30		Six months ended June 30	
	2006	2005	2006	2005
Revenue				
Express services	\$ 1,769	\$ 1,717	\$ 3,111	\$ 3,049
Passenger services	1,748	1,598	3,566	3,312
Other	288	141	579	287
Loss on disposal of property, plant and equipment	(1)	(17)	1	(20)
	3,804	3,439	7,257	6,628
Expenses				
Operating	3,927	3,707	7,884	7,354
Administration	709	702	1,359	1,303
Amortization	441	568	889	1,019
	5,077	4,977	10,132	9,676
Loss before the following	(1,273)	(1,538)	(2,875)	(3,048)
Operating Grant	1,500	1,300	2,500	2,200
Capital Grant	339	393	661	668
Net income (loss)	566	155	286	(180)
Retained earnings, beginning of period	9,532	8,013	9,812	8,348
Retained earnings, end of period	\$ 10,098	\$ 8,168	\$ 10,098	\$ 8,168

Saskatchewan Transportation Company

Statement of Cash Flows

(unaudited - thousands of dollars)

	Three months ended June 30		Six months ended June 30	
	2006	2005	2006	2005
Operating Activities				
Net income (loss)	\$ 566	\$ 155	\$ 286	\$ (180)
Items not involving cash:				
Amortization	441	568	889	1,019
Loss on disposal of property, plant and equipment	1	17	(1)	20
Recognition of capital grant	(339)	(393)	(661)	(668)
Net change in non-cash working capital	(269)	(310)	(598)	(457)
Cash provided by (used in) operating activities	400	37	(85)	(266)
Investing Activities				
Additions to property, plant and equipment	(211)	(76)	(389)	(540)
Proceeds on disposal of property, plant and equipment	61	54	67	56
Deferred start up costs	(400)	(68)	(669)	(74)
Cash used in investing activities	(550)	(90)	(991)	(558)
Financing Activities				
Capital grant received	300	300	500	600
Cash used in financing activities	300	300	500	600
Increase (Decrease) in cash	150	247	(576)	(224)
Cash, beginning of period	431	684	1,157	1,155
Cash, end of period	\$ 581	\$ 931	\$ 581	\$ 931

Saskatchewan Transportation Company
Notes to Financial Statements
(unaudited)

1. Basis of Presentation and Significant Accounting Policies

The interim financial statements of the Saskatchewan Transportation Company (the Company) have been prepared by management in accordance with Canadian generally accepted accounting principles. Certain information and disclosures normally required to be included in the notes to annual financial statements have been condensed or omitted. The interim financial statements should be read in conjunction with the financial statements and notes thereto in the Company's annual report for the year ended December 31, 2005.

These financial statements have been prepared following the same accounting principles as the financial statements for the fiscal year ended December 31, 2005.

2. Seasonal Nature of Express Revenues

Historically, STC's express service tends to be seasonal with the first quarter being slightly lower and the fourth quarter being slightly higher than the second and third quarters. This is due to the absence of significant agricultural activity in the first quarter and the increase in holiday shipping in the fourth quarter of the year.

